Electric Power Supply Association
Advocating the power of competition

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Mr. Howard G. Borgstrom
Director, Business Operations Center
Office of the Chief Financial Officer
U. S. Department of Energy
Mailstop CF-60, Room 4A-221
1000 Independence Avenue, SW
Washington, DC 20585

Dear Mr. Borgstrom:

The Electric Power Supply Association supports the Loan Guarantees for Projects that Employ Innovative Technologies, established in Title XVII of the Energy Policy Act of 2005. This visionary new program created by Congress will help deploy exciting new technologies to meet the energy challenges of the future. However, we believe that important changes need to be made to the Department of Energy's initial proposed rule, issued as RIN 1901-AB21, in order for the program to be successful. The appropriate percentage of debt which is guaranteed, the treatment of that debt, and the scope of the loan guarantees are all crucial for the development of new projects.

EPSA is the national trade association that represents competitive power suppliers, including generators and marketers. The competitive sector operates a diverse portfolio of technologies that represents 40 percent of the installed electric generating capacity in the United States. Our members produce electricity from biomass, coal, geothermal, hydro, landfill gas, natural gas, nuclear, solar, waste energy and wind.

Many of our members are interested in developing innovative new competitive generation facilities, including nuclear, clean coal and renewables, with the assistance of the Title XVII program. Competitive power suppliers built almost all of the new generation in the past decade, and are poised to do so again as the nation embarks on the largest investment in electric power infrastructure in its history. As you work to refine and improve upon the program, we hope that you will ensure that the competitive sector is fully eligible for and able to participate in this and other technology programs. Competition in the electric power industry promotes increased efficiency and technological innovation.

The Department of Energy should guarantee up to eighty percent of the total project cost and up to 100 percent of the amount borrowed. It is clear that Congress intended for up to 100 percent of a project's debt to be guaranteed by the federal government. The chairmen and ranking members of the House Energy and Commerce Committee and Energy and Air Quality Subcommittee and the Senate Energy and Natural Resources Committee have reaffirmed this view in letters and statements. Although we understand that the Administration wants to ensure that companies have a strong financial stake in the future of a project, we believe that the twenty percent equity stake will do this. All of these projects require multi-billion dollar capital investments which are not inconsequential for any company. The Department of Energy should also complete rigorous project and financial reviews in order to assure themselves of the creditworthiness and viability of a project. These loans are essential to facilitate the deployment of pioneering new technology projects until they are tested and proven in the marketplace.

The proposed rule recommends that any debt not guaranteed by the government be both subordinate to the guaranteed debt and unable to be separated from the guaranteed debt ("no stripping"). These requirements are clearly unworkable. Lenders who held debt which was subordinate to the federal loan guarantee would hold essentially unsecured debt. This would be an unattractive proposition, and result in either exorbitantly high interest rates or no loans at all. Projects would also run into difficulty if they hold loans, such as vendor financing, entered into prior to receipt of a federal loan guarantee; this proposed rule would force such loans to be refinanced.

The Department of Energy should work with Congress to ensure that this program is adequately funded and that funds are available on a multi-year basis. The initial fiscal year 2007 allocation of $4 billion in funds for this program, and the Department of Energy's $9 billion fiscal year 2008 request, are inadequate to support the wide range of worthy projects which have been proposed.

We appreciate this step towards full implementation of the Title XVII loan guarantee program. We look forward to working with the Department of Energy to address these concerns and ensure successful development of advanced energy technologies. Please feel free to contact me or my staff if you have any questions.

Sincerely,

John Shelk

John E. Shelk